



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

March 9, 2009

### **H.R. 1262** **Water Quality Investment Act of 2009**

*As ordered reported by the House Committee on Transportation and Infrastructure  
on March 5, 2009*

#### **SUMMARY**

CBO estimates that implementing this legislation would cost about \$10.6 billion over the next five years and \$17.7 billion over the next 10 years, assuming the appropriation of the necessary amounts, for the Environmental Protection Agency (EPA) to provide various types of grants to states and nonprofit organizations to support water quality projects and programs.

In addition to the effects on discretionary spending, enacting H.R. 1262 would affect both federal revenues and offsetting receipts. The Joint Committee on Taxation (JCT) estimates that enacting H.R. 1262 would reduce revenues by \$85 million over the 2010-2014 period and by \$700 million over the 2010-2019 period. CBO estimates that enacting this legislation also would increase tonnage charges on vessels entering the United States, effective for fiscal years 2010 through 2019. Those charges would increase offsetting receipts, which are credits against direct spending, by \$700 million over that period.

The legislation's effects on direct spending and revenues over the 2009-2013 and 2009-2018 periods are relevant for enforcing pay-as-you-go rules under the current budget resolution. CBO estimates that enacting this legislation would reduce revenues by about \$36 million over that five-year period and by \$547 million over the 2009-2018 period. Enacting the bill also would reduce direct spending by about \$266 million over the 2009-2013 period and about \$625 million over the 2009-2018 period. Together, those changes would yield net pay-as-you-go savings of \$230 million over five years and about \$78 million over 10 years.

H.R. 1262 contains several intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA), including monitoring, reporting, and public notification requirements for publicly owned treatment systems. The bill also includes an additional

reporting requirement for states. CBO estimates that the annual cost of complying with those mandates would likely exceed the threshold established in UMRA (\$69 million for intergovernmental mandates in 2009, adjusted annually for inflation).

H.R. 1262 would impose private-sector mandates, as defined in UMRA, on operators of vessels entering the United States by increasing vessel tonnage duties over the 2010-2019 period. CBO estimates that the direct costs of complying with those mandates would fall below the annual threshold established in UMRA for private-sector mandates (\$139 million in 2009, adjusted annually for inflation).

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1262 is shown in the following table. The costs of this legislation fall within budget function 300 (natural resources and environment).

**TABLE 1. ESTIMATED BUDGETARY EFFECTS OF H.R. 1262**

	By Fiscal Year, in Millions of Dollars												2009-	2009-
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2014	2019	
CHANGES IN REVENUES <sup>a</sup>														
Estimated Revenues <sup>b</sup>	0	*	-2	-9	-25	-49	-77	-107	-131	-147	-153	-85	-700	
CHANGES IN DIRECT SPENDING														
Vessel Tonnage Charges <sup>c</sup>														
Estimated Budget Authority	0	-65	-66	-67	-68	-69	-70	-72	-73	-75	-75	-335	-700	
Estimated Outlays	0	-65	-66	-67	-68	-69	-70	-72	-73	-75	-75	-335	-700	
CHANGES IN SPENDING SUBJECT TO APPROPRIATION														
Authorization Level	0	3,275	3,625	3,775	3,925	4,125	0	0	0	0	0	18,725	18,725	
Estimated Outlays	0	625	1,369	2,265	2,938	3,370	2,915	2,125	1,201	591	297	10,567	17,696	

NOTE: \* = revenue loss of less than \$500,000.

a. Estimate provided by the Joint Committee on Taxation.

b. Negative numbers reflect a reduction in receipts.

c. Negative numbers reflect an increase in offsetting receipts (a credit against direct spending).

## **BASIS OF ESTIMATE**

For this estimate, CBO assumes that H.R. 1262 will be enacted in fiscal year 2009, that the full amounts authorized will be appropriated, and that outlays will follow the historical patterns of similar EPA programs. Components of the estimated costs are described below.

### **Revenues**

H.R. 1262 would increase the funds available under the clean water State Revolving Fund (SRF) program, which would result in some states leveraging SRF grants by issuing additional tax-exempt bonds. The JCT estimates that those additional bonds would result in reductions in revenue totaling \$700 million over the next 10 years (see Table 1).

### **Direct Spending**

This legislation would increase, through fiscal year 2019, per-ton duties imposed on vessels arriving at U.S. ports from foreign ports. For vessels arriving from such ports in the western hemisphere, the rate would rise to 9 cents per ton (with a maximum of 45 cents per ton per year); for vessels arriving from other foreign ports, the rate would rise to 27 cents (with a maximum of \$1.35 per year). The Department of Homeland Security currently collects 2 cents per ton (with a maximum of 10 cents per ton per year) on vessels arriving from western hemisphere ports and 6 cents (with a maximum of 30 cents per ton per year) on those arriving from other foreign ports.

CBO estimates that enacting this legislation would increase offsetting receipts from tonnage duties by \$65 million to \$75 million a year through 2019. Total estimated collections over the 2010-2019 period would be \$700 million (see Table 1). This estimate is based on the additional receipts from tonnage duties collected before fiscal year 2002 (when those rates were temporarily increased to the levels specified in H.R. 1262), including an adjustment for changes in shipping traffic experienced since that time.

### **Spending Subject to Appropriation**

This legislation would authorize appropriations totaling about \$18.7 billion over the next five years for EPA's water infrastructure and grant programs. Amounts authorized to be appropriated for individual programs are shown in Table 2.

**TABLE 2. AMOUNTS AUTHORIZED TO BE APPROPRIATED FOR EPA PROGRAMS UNDER H.R. 1262, THE WATER QUALITY INVESTMENT ACT OF 2009**

	By Fiscal Year, in Millions of Dollars					2010-2014
	2010	2011	2012	2013	2014	
Clean Water SRF Grants	2,400	2,700	2,800	2,900	3,000	13,800
Sewer Overflow Grants	250	300	350	400	500	1,800
State Management Assistance	300	300	300	300	300	1,500
Great Lakes Remediation	150	150	150	150	150	750
Technical Assistance for Rural/Small Treatment Works	100	100	100	100	100	500
Alternative Water Source Projects	50	50	50	50	50	250
Watershed Pilot Projects	20	20	20	20	20	100
Great Lakes Research and Development	5	5	5	5	5	25
Total Authorization Level	3,275	3,625	3,775	3,925	4,125	18,725

Note: EPA = Environmental Protection Agency; SRF = state revolving fund.

H.R. 1262 would authorize the appropriation of \$13.8 billion over the 2010-2014 period for EPA to provide capitalization grants for the clean water (SRF) program. States would use such grants along with their own funds to make low-interest loans to communities and grants to Indian tribes to construct wastewater treatment facilities and to fund other related projects. This bill would make several amendments to this grant program, including allowing states to extend the repayment terms for SRF loans and expanding the types of projects eligible for assistance.

This legislation also would authorize the appropriation of \$1.8 billion over the 2010-2014 period for EPA to make grants to states to address sewage overflows (that is, the discharge of untreated wastewater into waterways). In addition, H.R. 1262 would authorize the appropriation of \$1.5 billion over the 2010-2014 period for EPA to make grants to states to support various activities associated with implementing state clean water programs; those funds would be available to pay the salaries of personnel working on water quality issues, establish regulations, and enforce clean water laws.

All of the remaining authorizations in the bill would total about \$1.6 billion over the next five years. That funding would be used for various other purposes, including support for projects aimed at cleaning up certain areas of the Great Lakes region where contamination has settled into sediments at the bottom of the lakes, and grants to nonprofit organizations to provide technical assistance, such as training communities in methods for treating water.

## **ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS**

H.R. 1262 would require treatment plants to comply with a number of new requirements. Those requirements are not conditions of federal assistance, and consequently, they would be intergovernmental mandates as defined in UMRA. Specifically, the bill would require:

- Institute and utilize a monitoring program for sewer overflows, including combined sewer overflows and sanitary sewer overflows;
- Notify the public of a sewer overflow within 24 hours;
- Notify public health authorities and other affected entities, such as public water systems, if there is an imminent and substantial risk to human health due to a sewer overflow;
- Provide a report of an overflow within 24 hours to the state or to the Administrator of EPA;
- Report each sewer overflow on its monthly discharge monitoring report to EPA or the treatment plant's state. This report must include the magnitude, cause, and mitigation efforts for the specific overflows; and
- Submit an annual report to EPA or the state on the number of overflows in a calendar year, including the details of magnitude, duration, location, potentially affected receiving waters, and mitigation efforts. If a state receives a report under this requirement, that state must submit to EPA a summary of the report.

Without knowing the nature of the regulations that EPA would issue as a result of this bill, CBO cannot make a precise estimate of the costs of complying with the mandates. Based on information from affected entities, however, we estimate that such costs would likely exceed the threshold established in UMRA. The bill's new requirements would involve additional personnel costs and could necessitate new infrastructure and

engineering expertise. According to EPA and the National Association of Clean Water Agencies, over 16,000 treatment plants operate in the United States, and each of those entities could be affected by the permitting requirements in H.R. 1262. Infrastructure improvements, if required by the regulations, could be particularly expensive. Given the large number of affected entities, even a small increase in additional costs (less than \$4,500 per entity annually) would result in costs that exceed the threshold for intergovernmental mandates in at least one of the next five years (\$69 million in 2009, adjusted annually for inflation).

## **ESTIMATED IMPACT ON THE PRIVATE SECTOR**

H.R.1262 would impose private-sector mandates on operators of vessels entering the United States by increasing vessel tonnage duties over the 2010-2019 period. The cost of complying with those mandates would be the incremental amounts paid to the federal government as a result of the higher rates. CBO estimates that the incremental cost for vessel operators would amount to about \$67 million per year during the first five years the mandate is in effect. Consequently, the direct cost of the mandates would fall below the annual threshold established in UMRA for private-sector mandates (\$139 million in 2009, adjusted annually for inflation).

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